

Message Text

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SUBJECT: SEPTEMBER 8 MEETING BETWEEN PRESIDENT MORALES
BERMUDEZ AND TREASURY SECRETARY BLUMENTHAL

1. TREASURY SECRETARY BLUMENTHAL MET ON THURSDAY, SEPTEMBER
8 AT 10:30 A.M. WITH PRESIDENT MORALES BERMUDEZ. PAR-
TICIPANTS INCLUDED FOREIGN MINISTER DE LA PUENTE; AMBASSADOR
GARCIA BEDOYA; REMIGIO MORALES BERMUDEZ; AND FOR U.S.,
UNDER SECRETARY SOLOMON; AMBASSADOR SHLAUDEMAN; AND JILL
GIANOLA OF TREASURY.

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2. PRESIDENT MORALES BERMUDEZ BEGAN WITH A DISCUSSION OF
THE PERUVIAN POLITICAL AND ECONOMIC SITUATION. HE SAID HE
HAD TWO BASIC OBJECTIVES: ECONOMIC RECOVERY AND THE RETURN
TO A DEMOCRATIC PROCESS. A NEW CONSTITUTIONAL ASSEMBLY WAS
PLANNED AND GENERAL ELECTIONS WOULD BE HELD IN 1980.

3. MORALES BERMUDEZ CALLED THE CURRENT SITUATION A FINAN-

CIAL RATHER THAN AN ECONOMIC CRISIS. PERU'S ECONOMIC DEVELOPMENT WAS PROGRESSING WELL: LARGE INVESTMENTS HAD BEEN MADE IN THE COPPER INDUSTRY AND PERU WOULD BE SELF-SUFFICIENT IN OIL BY 1978. HE ADMITTED THAT PERU HAD SPENT MORE THAN IT SHOULD AND, AS A RESULT, HAD A LARGE GOVERNMENT

DEFICIT AND EXTERNAL DEBT. BOTH THE POCKET CONTAINING SOLES AND THE POCKET CONTAINING FOREIGN EXCHANGE WERE BEING EMPTIED. HOWEVER, ASIDE FROM OVERSPENDING, THE MAIN CAUSE OF THE PRESENT CRISIS WAS THE DECLINE IN PRICES OF THE PRIMARY PRODUCTS WHICH PERU EXPORTS. ALTHOUGH PERU HAD DOUBLED THE VALUE OF MANUFACTURED GOODS EXPORTS, THIS WAS NOT ENOUGH TO COMPENSATE FOR THE LOSS IN PRIMARY EXPORTS REVENUE. THE WORLD BANK AND THE IMF HAD PREDICTED THAT REVENUES FROM PERU'S EXPORTS WOULD TOTAL 2,800 MILLION DOLLARS IN 1977, YET THEY WOULD NOT EVEN REACH 1,800 MILLION. PERU HAD TAKEN STEPS TO CORRECT THE ECONOMIC SITUATION: 200 MILLION DOLLARS HAD BEEN CUT FROM THE BUDGET, MANY PRICE SUBSIDIES HAVE BEEN ELIMINATED, AND THE PRICE OF GASOLINE HAD BEEN INCREASED 500 PERCENT IN RECENT YEARS.

4. MORALES BERMUDEZ EMPHASIZED THAT THERE WAS A LINK BETWEEN THE SUCCESSFUL RESOLUTION OF PERU'S ECONOMIC PROBLEMS AND AN ORDERLY RETURN TO DEMOCRACY. THEY AGREED WITH THE IMF ON SEVERAL STEPS PERU MUST TAKE, INCLUDING A CONFIDENTIAL

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REDUCTION IN THE DEFICIT AND ELIMINATION OF SEVERAL PRICE SUBSIDIES. HOWEVER, IT WAS POSSIBLE THAT AN AGREEMENT COULD NOT BE REACHED WITH THE IMF, BECAUSE THE FUND DID NOT "THINK POLITICALLY -- IT IS A TECHNICAL INSTITUTION". THE ONLY WAY FOR AN AGREEMENT WAS IF PERU RECEIVED STRONG POLITICAL SUPPORT, NOT FOR A "CRAZY" ECONOMIC PROGRAM BUT FOR A SERIOUS AUSTERITY PLAN FOR 1978-79. MORALES BERMUDEZ SAID HE WAS LOOKING FOR POLITICAL SUPPORT FROM THE U.S.

5. SECRETARY BLUMENTHAL THANKED THE PRESIDENT FOR HIS DISCUSSION OF PERU'S PROBLEMS AND ASSURED HIM THAT WE WOULD DO ALL POSSIBLE TO ASSIST HIM IN ATTAINING HIS POLITICAL AND ECONOMIC GOALS. IT WAS VERY IMPORTANT THAT PERU REACH AGREEMENT WITH THE IMF. THE KEY TO ESTABLISHING INTERNATIONAL CONFIDENCE, INCLUDING THAT OF THE COMMERCIAL BANKS, WAS BEING ABLE TO SHOW THAT PERU'S AUSTERITY PROGRAM HAD THE BLESSING OF THE FUND.

6. SECRETARY BLUMENTHAL SAID HE WOULD WATCH PERU'S NEGOTIATIONS WITH THE IMF CLOSELY AND THE U.S. WOULD DO ITS BEST TO ENSURE AN AGREEMENT. HOWEVER, THE U.S. DOES NOT CONTROL THE ACTIONS OF THE FUND -- IT HAS A MINORITY VOICE.

IT WAS IMPORTANT THAT PERU DEVELOP AN ECONOMIC PROGRAM FOR 1978 WITH SPECIFIC FIGURES AND GOALS FOR SUCH COMPONENTS AS THE BUDGET DEFICIT, THE BALANCE OF PAYMENTS, SUBSIDIES, ETC. DIFFERENT NUMBERS SHOULD BE ESTIMATED UNDER DIFFERENT

ASSUMPTIONS OF THE PRICE TRENDS OF PERU'S EXPORTS COMMODITIES. RETURNING TO DEMOCRACY WAS VERY IMPORTANT TO PERU AND WE WELCOMED MOVES IN THAT DIRECTION.

7. MORALES BERMUDEZ SAID THAT THE ECONOMIC PROGRAM DID CONTAIN SPECIFIC FIGURES. HE PROMISED TO SEND SUCH INFORMATION TO THE SECRETARY VIA AMBASSADOR SHLAUDEMANN UPON HIS RETURN TO PERU.

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8. MR. SOLOMON SAID THE U.S. WAS ALREADY GIVING ECONOMIC ASSISTANCE TO PERU (E.G., THE 57 MILLION DOLLAR CCC CREDIT), BUT IT WOULD BE EASIER TO GIVE CONCESSIONAL AID IF PERU REACHED AGREEMENT WITH THE IMF AND ARRANGED OTHER SOURCES OF AID SO THAT OUR MODEST CONTRIBUTION WOULD CLOSE THE GAP.

9. SECRETARY BLUMENTHAL ASKED IF THE PERUVIANS HAD ALREADY BEGUN DISCUSSIONS WITH THE FUND. MORALES BERMUDEZ REPLIED THAT ON SEPTEMBER 6 THE CENTRAL BANK HAD CONTACTED THE IMF. SOME REPORTS INDICATED PERU MIGHT RESORT TO A MORATORIUM ON ITS FOREIGN DEBTS. MORALES BERMUDEZ SAID THIS WAS VERY BAD PUBLICITY FOR PERU, AND WAS UNREALISTIC BECAUSE PERU FAITHFULLY COMPLIED WITH ITS OBLIGATIONS AND PLANNED TO CONTINUE TO DO SO. SECRETARY BLUMENTHAL AGREED IN CONCLUSION THAT REPAYMENT OF PERU'S DEBT WAS CRUCIAL AND THANKED THE PRESIDENT FOR THE OPPORTUNITY TO TALK WITH HIM. VANCE

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